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## JOINT VENTURES AMONG DEVELOPING COUNTRIES WITH SPECIAL EMPHASIS ON THE ROLE OF PUBLIC ENTERPRISES

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## 1. Introduction

The basic objectives of the paper are to underline some existing characteristics: criteria for the identification of economic potentials, issues related to the strategy of strengthening joint venture undertakings especially among public enterprises, to present some of the results of the seminar on Joint Ventures of Public Enterprises held at ICPE in 1980 and finally to indicate some policy measures which seem necessary for the promotion of this form of ECDC.

## 2. The Extent and Characteristics of Existing Joint Ventures of Developing Countries

Generally it is believed that there are not many joint ventures among developing countries but studies in this field showed that they exceeded expectations, indicating quite a number of investments among developing countries. At the same time it was noticed that they are rapidly gaining in importance. The study of the Research Center for Co-operation with Developing Countries (TCDC/2/INB.6, May 1981) identified more than 600 Joint Ventures among Developing Countries. L.T. Wells Jr. 1/ identified 823 manufacturing projects originating in developing countries and later as many as 2.000 developing countries' subsidiaries. He estimates that this is only between one third and one quarter of the total. That would mean that the total number of developing countries' subsidiaries would be in the region of 6.000 - 8.000.

The internationalization of developing countries' firms is anyhow a rather recent phenomenon and due to the lack of data it is really not possible to reliably estimate the actual scope and significance of this phenomenon. Nevertheless, it is obvious that Latin American and Asian investors are in the lead while African ones are somehow lagging behind, although many studies have shown that they are also gaining in importance. UNCTAD study (T.D./B/AC.19/R.3, 1975) identified a list of 53 industrial projects in Africa of varying levels of investments. This certainly underestimates the real number, which can be illustrated by the fact that only in Nigeria, in the same year, 54 investments were registered from other developing countries (24 from Asia, 21 from Middle East and 9 from Africa). In the UNDP study we identified 28 Joint Ventures of other developing countries located in the Sudan. At the same time Yugoslavia now has more than 30 Joint Ventures in Africa.

The information usually underestimates this form of mutual co-operation between developing countries. In a number of countries outflows of investments are not registered due to their foreign exchange and other restrictions. Unfortunately the existing information does not allow a reliable estimate of the factual share, importance and role of public enterprises in developing countries' joint investments. The available case and country studies nevertheless indicate that they are in a minority regarding the total number of existing joint ventures and that private and mixed companies still predominate, especially in manufacturing, in spite of differences in their role in different economic sectors.

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1/ L.T. Wells Jr. Multinationals from Latin American and Asian Developing Countries: How they Differ, Harvard Graduate School of Business Administration, 1980, p.3, and the Third World Grows its own Multinationals, International Management Review, January 1982, p.39

Compared to the total number of subsidiaries in the world (more than 80.000) and the ones established in developing countries (more than 20.000) the subsidiaries established by developing countries constitute only a small portion. Therefore it is safe to say that developing countries have not yet developed this form of mutual co-operation enough and that other forms of ECDC are far ahead.

In order to elaborate the long-term strategy of the establishment of joint ventures of multinational companies of developing countries, which is needed in order to systematically promote this form of ECDC, it seems to be indispensable to identify at least some of the existing characteristics of investments among developing countries. Unfortunately, it is only possible to identify one characteristic of joint ventures among developing countries in general and only indicate some characteristics for public enterprises joint ventures in particular.

The majority of joint ventures are established within regional integration groupings or regions in general. Mutual investments of developing countries on the inter-regional level constitute only a small share in the total number of existing joint ventures. L.T. Wells has identified 30 Hongkong, 14 Taiwanese and 47 Indian projects in Africa which, in most cases, own their existence to ethnic links.

This number is growing lately, especially in industries like textiles and leather. Ethnic and historical links are among the strongest stimuli for this type of long term business co-operation.

The second major feature of existing investments in developing countries is that they are mainly based on factor cost advantages such as cheaper labour, cheaper managerial costs, minimal costs of technology transfer, adaptation of technology to small scale production, factor endowments and general conditions. Existing joint ventures are characterized by labour intensity and standardized technology and prevail in sectors such as: food, textiles, machine tools, electro mechanical products, leather industry, etc.

The majority of joint ventures have been established at the instigation of one partner country. They are rarely the result of simultaneous initiatives of both partners or even of co-ordinated action, intergovernmental agreement or a systematic component of long term joint venture strategies within the national or regional development strategies. The situation is somehow different in the case of public enterprises, which are frequently established on the basis of intergovernmental agreement.

The highest intensity in the existing pattern of joint ventures among developing countries is among partners at different levels of economic development. The more advanced developing countries are becoming increasingly important investors in other developing countries.

Investments among developing countries take place mainly in manufacturing. Capital intensive investments in raw materials exploitation have not a significant share. The situation is, by sectorial distribution, different as regarding public enterprise involvement in foreign investments in other developing countries. Their participation is the strongest in some of the key-sectors of the economy, such as natural resources, transport and communications, basic industry such as steel and petro-chemicals, foreign trade, energy and infrastructure in general.

Public enterprise joint ventures are a much more recent phenomenon than the internationalization of private firms. Some indications show that we could differentiate three categories of public enterprise joint ventures: a) jointly owned and managed enterprises by governments of two or more developing countries, b) basically national enterprises expanding their activities abroad in response to changing conditions, and finally, c) originally private enterprises which have been nationalized and have already previously expanded their activities abroad. *

A special characteristic of public enterprises, compared to private ones, is that due to the frequent, direct or indirect, subsidies from their governments, preferential treatment or even monopoly position they are generally in a better position to compete with foreign enterprises than the private sector. The domination of transnational enterprises in the international economy may find a more effective challenger in public enterprises. They seem to offer a more effective bargaining mechanism vis-a-vis transnationals. Public enterprises have special advantages and capacities to overcome the financial, some marketing and other barriers to entry into oligopolistic sectors where scale economies and their ability in the economic and legal arrangements of the projects are important. Public enterprises can use government officials for initiating and administering foreign projects and scanning investments opportunities.

Public enterprises are better suited for the realization of long-term national objectives and priorities and can therefore make better use of co-operation with foreign partners in general.

Although public enterprises can serve as a countervailing power to transnationals, sometimes even an alternative to them, we should not idealize the possible role of public sector enterprises in joint ventures among developing countries. There are also important disadvantages. One of them is that frequent monopoly position does not stimulate the achievement of efficiency of operations. They are frequently not very fast in tapping the opportunities and realizing the ideas. It is therefore necessary to evaluate the advantages and disadvantages of joint ventures by public enterprises, topic by topic and sector by sector.

As compared to transnational enterprises, several differencies can be identified as specific characteristics of joint ventures or multinational enterprises of developing countries. That does not mean that multinational enterprises of developing countries are by definition different from transnationals.

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* See also K. Kumar, Multinationalization of Third World Public Sector Enterprises, in, Multinationals from Developing Countries, Lexington Books, 1981, p. 190.

Among the existing differences in favour of developing countries' joint ventures compared to transnationals we can stress the following: the propensity of partners from developing countries to adapt to local conditions is stronger, integration with local economies is more intensive, there is less political interference from developing countries' firms, the propensity to joint ventures is stronger in the case of partners from developing countries, possibilities for unpackaging and thus maximizing local inputs are stronger, management styles, adaptation of technology and management styles to local conditions is more frequent, technology is usually adapted for the smaller scale production and lower quality of local inputs, investments prevail in labour intensive activities and not in research intensive or trade marks intensive activities.

## 3. Elements of the Long-term Strategy of the Establishment of Joint Ventures Among Developing Countries

Joint ventures are one of the forms of economic co-operation which encompass the association of labour and production factors on a wider, regional or global basis. The conditions produced by the technological and scientific revolution create the necessity of the wider, even global combination of production factors as a law governing the process of development. Internationalization of production is a progressive component of development to the extent that it is rid of explcitative relations imposed by monopoly capital or various systems of hegemony. If based on equal or joint responsibility and interests of all partners it could lead to the development of productive forces.

Secondly, joint ventures constitute a lever for restructuring international economic relations and the improvement of the position of developing countries in the international economy or for the elimination of the old vertical type of integration of developing countries in the international division of labour. The result of this induced type of development is a similarity or even competitivity of their economic structures, limiting their possibilities of co-operation. In such circumstances, joint ventures could induce other forms of co-operation among developing countries, creating the need for co-operation through forward and backward linkages. They can be regarded as a nucleus stimulating other production links and increasing the resistence of developing countries to shorter market fluctuations and even political differences. Trade flows originating from joint ventures could be more stable and less exposed to strains than traditional trade.

A strategy of promoting joint ventures calls for built-in-flexibility and adaptations at different levels. Gradual and flexible formulas are the precondition for necessary adaptations to the changing interest of the partners. They are not a permanent common interest but one likely to remain for long enough to provide benefits and stability to all partners over a certain period of time. *

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* R. Green: Developing Countries' Multinational Enterprises, Notes Toward an Operational Component of Third World Economic Co-operation. Conference on Economic Co-operation and Trade among DC's, Tunis, April 1977, pg. 8

We believe that within the strategy of promoting joint ventures among developing countries there is a special need for specific incentives for joint undertakings in modern skills and technology intensive activities and those where economies of scale are necessary. Thus, joint ventures are not only regarded as an instrument for developing industrial or other activities on the basis of the cost advantages but especially a vehicle through which developing countries could also undertake activities, which in the conditions of limited national markets and the availability of resources cannot be undertaken alone. Following only a development pattern based on "comparative advantages" in cheaper labour, in spite of short term attractiveness, developing countries could not embark on really productive development. Modern technology and research intensive activities will be, in such a case, "reserved" for industrial countries and the gap between North and South could only be frozen. Developing countries' joint ventures strategy should therefore be based not only on the existing allocation of factor endowments but progressively also on the necessary changes and restructuring of the international economy. This orientation is especially important for public enterprises since they have in many developing countries a key role in many of the technology or capital intensive sectors.

Although it is much easier in the short term to achieve the benefits of joint ventures in marketing, benefits of production undertakings deserve to be emphasized in long term perspective. This is the sector where, by joint action, developing countries could benefit from economies of scale and, by pooling their resources, overcome many of the limitations of small national markets. Therefore joint ventures must be gradually supplemented by linkages with transport and related activities. Finally, the linkages with production are optimal in order to maximize the development effects of joint ventures. Production joint ventures call for much stronger advanced commitments from the partners. They face difficulties in achieving a balanced distribution of benefits among partners and therefore are not flexible for short term adaptations to changing interests and conditions.

Consultancy and engineering joint ventures by public enterprises deserve priority attention as they can be regarded as a first stage for possible future undertakings.

The heterogeneity of developing countries and infrastructural limitations make it advisable to promote joint ventures at the first stage at the subregional, then regional and at the latter stages, on the interregional level. On the sectoral level there are many reasons for giving priority to joint undertakings in infrastructural facilities, consultancy, and marketing.

Vertically designed infrastructural facilities in many developing countries represent a significant obstacle for intradeveloping countries' investments.

The closing of infrastructural gaps is one of the basic prerequisite for the establishment of joint ventures among developing countries, requiring the functioning of permanent communication and other infrastructural links (transport, dissemination of information and other communication elements as well as different research, training and consulting activities.)

Joint ventures in agriculture are also one of the important areas for joint efforts, especially in view of the long term food shortages in the world and in developing countries in particular. Through joint undertakings, developing countries could engage, not only in large scale farming, but also in the marketing of agricultural products, small scale farming and especially in processing agricultural products. Joint ventures offer developing countries the opportunity to develop new agricultural production pooling resources and knowledge, introducing new sorts and even new technologies suited to local (regional) conditions. Such ventures could be specially beneficial for small and less developed countries with food deficiencies.

## 4. Some Problem Areas

One of the major problems in establishing and the functioning of joint ventures among developing countries, as well as in general, is how to achieve an equitable distribution of costs and benefits between the partners and the need to find an acceptable mechanism for it. Only a balanced distribution of both (benefits and costs) of a joint venture over time can ensure stable conditions, and fruitful and efficient co-operation. In one sense it is also regarded as the "comparative advantage of joint ventures among developing countries as compared to co-operation with transnationals, which have clear advantages in the field of technology and financial resources.

At the same time there is a need for certain modifications in the concept of efficiency of public enterprise joint ventures. This cannot only be regarded as a narrowly defined profit efficiency but has to imply broadly defined social criteria and the distribution of benefits and costs among partners in addition to all the macro-economic effects which are difficult to define.

Additionally, the link between micro and macro efficiency broadly defined, is needed in many cases. Many of the macro-economic benefits, such as stability or security of supply, lessening of the dependence, strengthening of the bargaining power vis-a-vis transnationals, do not usually appear in the form of normally defined business efficiency. Therefore mechanisms have to be introduced to enable such a link and he transformation of macro results into micro economic efficiency (preferential treatment, fiscal or financial allowances, etc.).

If joint ventures of public enterprises are really to be an instrument for strengthening collective self-reliance, the management and control must be in the hands of partners from developing countries. Domination of transnationals should therefore be excluded or, from the very beginning, linked to a phasing out formula.

The prevailing macro economic approach in promoting joint ventures of public enterprises among developing countries needs to be supplemented by a more realistic "bottom-up approach". Many macro economic programmes and declarations have not achieved adequate results because they have not been based on the real, micro economic incentives which are the pre-requisite for the realization of business undertakings. The crucial task of economic policy is to regulate and to guide the activities of public enterprises which have to be efficient to be successful, but preferential and other incentives can ensure the realization of the broader social objectives which public enterprises should also achieve.

From various points of view different producers associations would appear to provide a possible framework for joint ventures of public enterprises. They could be an inter-enterprise complement to the prevailing intergovernmental co-operation among the member countries. The importance of this micro-economic approach can also be illustrated by the fact that many inter-Arab joint ventures have been able to survive even severe political problems among the partner countries if based on long term economic rationale.

Finally we cannot overlook the attitudinal barriers existing in many developing countries which prevent the strengthening of their mutual undertakings. They are manifested in the "climate", convictions, and assumptions that the quality of products, technologies or capabilities are second rate in the great majority of fields in developing countries in general, although in many fields they are competitive with ones from industrial countries or even better adapted to the conditions in developing countries.

## 5. Some of the Criteria for the Identification of the Economic Potentials for Public Enterprise Joint Ventures Among Developing Countries

The basic criteria for the identification of economic potentials for joint ventures among developing countries and, usually, even the pre-condition for successful joint undertakings, is the existence of common economic interests and the political will to pursue them. Their characteristic is that they cannot be pursued by individual action by one country alone but only by joint action. Therefore the first priority for the selection of economic potential is the identification of all the activities which cannot be realized by individual action by one country alone. The second area of economic potential is area of joint interest where joint action is optimal but individual undertaking also possible, although not the most efficient alternative.

The pooling of economic factors such as technological and administrative experience, production and service facilities, financing, natural resources and skills is another priority sector for the establishment of joint ventures. Certain complementary factor endowments of developing countries and especially in natural resource-rich African countries, offers prosperous grounds for the promotion of investment co-operation, especially by public enterprises.

This is particularly important because of the industrial countries' domination in the exploitation and processing of raw materials. The present share of developing countries in the field of primary commodity processing is low in general (48,6% in minerals in 1976)*. Among the existing joint ventures among developing

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* The share of the output processed by developing countries beyond the crude stage is in: Tin 81%, Copper 77%, Manganese 69%, Lead 65%, Nickel 55%, Zinc 45%, Boxite 40%, Iron 20% and Phosphates 15% (K. Takeuchi and C. Chung, "Export-oriented processing of primary commodities in developing countries", IBRD, 1979).

countries there are very few in the exploitation field and relatively more in the processing of primary commodities. Among our list of more than 600 joint ventures we identified only 13 in mining, oil and gas drilling. Among 177 Latin American joint ventures only 7 were in the primary sector. Apart from this, existing processing capacities located in developing countries are mainly in the so called reallocated activities from industrial developing countries, which are characterized by strong labour intensity or pollution (copper, steel, petro-chemicals, pulp, leather, and similar). Through the joint ventures of public enterprises, developing countries could substantially increase their share in the processing of their natural resources where one country alone does not possess all the necessary capabilities or where economies of scale or substantial financial resources are needed.

Transport cost intensity which falls proportional to the level of processing, stimulates the location of processing within developing countries themselves. Increased processing in developing countries would have created additional export earnings for developing countries amounting to 33.750 million dollars in the case of iron, 3.337 million dollars in the case of bauxite or for 8 minerals together in the range of 32 billions (see Takeuchi Choeng). Joint ventures could be set up around successive stages of processing, in combination with purchase contracts, transportation, energy supply or even co-ordinated planning.

The importance of the transport costs criterion for the identification of the economic potential for public enterprises' joint ventures is increasing with the rise in oil prices and the high oil intensity of transport. It substantially means, that above a certain point, increasing transport costs make trade a second best solution compared with local processing which could be undertaken jointly by developing countries in the capital intensive activities like raw materials processing. In some cases transport costs exceed 20% or even 40% of total production costs. The higher the transport costs in relation to the total production costs, the stronger the stimulus for joint ventures as an alternative to trade in these commodities. Cost reducing effects of the modernization of facilities for bulk handling or the bias of international freight rates in favour of unprocessed materials do not reduce substantially the importance of this criterion.

The economies of scale criterion is of extreme importance in the promotion of public enterprise joint ventures among developing countries. According to available detailed engineering data indicating sectors or activities in which economies of scale exist, the priority areas could be identified for the promotion of public enterprise joint ventures. Forward integration could not only optimize the production, but also contribute to the appropriation of the benefits now earned by the buyers of unprocessed minerals as well as reducing the dependence of developing countries on industrial countries.

Among others, the structure of trade among African countries or within integration groupings could also represent one of the possible criteria for the identification of economic potentials for joint ventures, since export is usually the forerunner of foreign investment. It can be applied both statically as well as dynamically. In the first case, countries could identify the highest intensity of mutual trade by groups of products or by products. In the second, dynamic approach, the ratio of intensification of mutual trade, the most dynamic products can be identified assuming that this offers promising potential for long-term co-operation through joint undertakings.

## 6. Some Conclusions and Recommendations for the Promotion of Joint Ventures of Public Enterprises

The identification of sectors, activities or even projects by individual countries for joint undertakings with other developing countries represents the departure point for the promotion of a joint ventures strategy within the strategy of the collective self-reliance of developing countries. The inclusion of this strategy as a regular component of national or regional development plans seems to be one of the prerequisites for the promotion of this. Priority should be given to public enterprise joint undertakings since they are usually more directly involved in the implementation of national or regional development plans, especially in some key economic sectors.

The efficient development of public enterprise and other joint ventures has been faced with a lack of information on the capabilities of other developing countries, on the experiences, modalities, advantages, operational modalities as well as on the availability of international, regional and national capacities for promotional support services. The bridging of this information gap is thus one of the priority areas for the promotion of a joint venture strategy for developing countries.

We would like especially to stress the urgent need for a systematic development of national information systems as a catalyst for the dissemination of regionally or internationally available information which unfortunately does not usually reach the level of enterprises.

Social emphasis should be given to the establishment of joint ventures in infrastructure where the lack of transport and communication links limits the possibilities for the establishment of joint ventures among developing countries. Secondly, the consultancy and other agencies should give special attention to the assimilation, adaptation, unpackaging, training and research and finally also the dissemination of information on the availability of such capacities in developing countries in order to promote the establishment of joint ventures.

Many case studies show that knowledge about the availability of advisory or consultancy services, although playing an extremely important role in promoting joint ventures, does not exist to a sufficient extent in many developing countries.

Information on the *existing joint ventures*, TCDC promotional activities, the capacities and the requirements of developing countries in the promotion of joint ventures, relevant experiences and legal arrangements should become the regular component of national, regional and international information systems.

Except in some integration groupings, there are generally no speical provisions for preferential treatment of joint ventures of developing countries as compared with investments from industrial countries. It seems necessary to develop such preferential treatment which could substantially promote this form of co-operation among developing countries.

Additional systematic efforts are needed to develop institutional arrangements and operational mechanisms (alternatives) for the fair distribution of costs and benefits including development effects between the partners in joint ventures since non-existence of such mechanisms could be a source of many problems, even disputes, and could limit the strengthening of joint ventures between developing countries.

Only in exceptional cases do international, regional or national financial institutions give special priority to the financing of joint ventures. Participation of banks or regional financial institutions in equity capital of joint ventures is generally an exception although it could perform an unavoidable catalystic function in promoting joint ventures.

Educational programmes, training, research and development, information systems in developing countries have not been directed towards the creation of specific know how on joint ventures. What seems to be needed is the strengthening of this form of joint undertaking of developing countries

The establishment of different working groups, pools of experts, task forces etc., for giving consultations, information and offering other supportive activities for the promotion of joint ventures could substantially contribute strengthening of joint ventures among African countries.

The national and other educational systems in developing countries should therefore develop appropriate courses to cover specific needs for strengthening investments among developing countries. Simultaneously, certain modifications to existing programmes, the introduction of new fields and training patterns and post-graduate studies should be introduced at the national or regional level, supported by international or similar institutions. Universities could establish special departments concentrating on ECDC, joint ventures and self-reliance in general, since only a systematic long-term approach could effectively promote investment among developing countries in order to overcome many barriers, including attitudinal ones, existing in developing countries themselves.

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# CONSTRAINTS TO THE EFFECTIVE DEVELOPMENT OF THE ENTREPRENEURIAL CAPABILITIES AND PERFORMANCE OF AFRICAN PUBLIC ENTERPRISES

by
ECA Secretariat

# Constraints to the effective development of the entrepreneurial capabilities and performance of African Public Enterprises

## 1. Introduction

Since the attainment of independence, African governments have been making increasing use of their public enterprises to promote development in the national economy. The scope of these enterprises, often referred to as parastatals, their numbers, variety and complexity of operation has in like manner increased considerably over the years. Today, public enterprises operate in virtually all sectors of the economy - agriculture, banking, commerce and industry, insurance, transportation, tourism and mining and it would appear that the corporate form of conducting public business has now become a permanent feature in all African countries.

Exact and up-to-date figures of public enterprises in Africa are hard to come by particularly as there does not appear to be any consensus among African countries as to what precisely constitutes a public enterprise; indeed what may be regarded as a public enterprise in one country may not be so regarded in another country. For the purpose of this paper, public enterprise or parastatal refers to institutions or organizations which are wholly owned by the public or in which the public holds a majority interest, whose activities are of a business nature and which provide services or produce goods and have their own district management. This definition would excludes organizations like Sports Councils, University Councils, Hospital Boards, etc. and appears to be in line with UN General Assembly resolution No. 3488(XXX) of 12 December 1975 in which the Secretary-General was requested to prepare a study on the role of the public sector in enhancing the development of developing countries. It was specifically stated in the resolution that the study should focus "on those entities producing traded goods and services which the government and its agencies own and control (including partial ownership) if this is sufficient to give effective control ....." 1/.

Reverting to the question of numbers, a few examples may suffice to illustrate the proliferation of these institutions in African countries. Before 1966, there were four development corporations in Nigeria each of which had nearly forty subsidiaries; in addition there were other Federal and State owned companies making a total of over 250. 2/ It is conservatively estimated that today these figures have increased more than ten-fold.

In Kenya there are about sixty six parastatals and country-wide co-operatives; this figure does not include government owned companies or the subsidiaries of parastatals. Parastatals are now a major factor in the sphere of employment. Indeed it is estimated that Kenyan parastatals now employ as many people as the civil service itself, if

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1/ UN Economic and Social Council Doc. E/5985 of 24 May 1977.

2/ S.G. Odia - Personnel Management Problems of African Public Enterprises paper submitted to the ECA Regional Seminar on Technical and Managerial Problems of African Public Enterprises, Yaounde, 7-14 August 1978.

teachers are excluded. 3/ In the United Republic of Cameroon, the state owned Société Nationale d'Investissement (S.N.I.) alone has about 83 public enterprises and subsidiaries with foreign and national entrepreneurs and provides, among other things, guidance to prospective investors. In Zambia the government makes nearly all its investments in industrial and commercial undertakings through the Industrial Development Corporation and its subsidiary companies. Zambian parastatals provide over-all employment to about 140,000 workers or 30% of the national work force in formal employment. The value of the total assets of Zambian parastatals at the end of 1976 was K3026 million; this figure had risen to K3451 million by 1977 4/. When all these issues are brought together and viewed as a whole, there is little doubt that the contribution of the parastatal sector in the economy of African countries is now a major factor to reckon with.

## 2. Role and Functions of African Public Enterprises

The degree and extent of government involvement in economic ventures through public enterprises is generally determined by ideological considerations, historical factors and the state of economic development. Thus in countries which operate socialist type economies, the general pattern appears to be one of elimination or substantial reduction of the private sector. On the other hand in capitalist oriented economies, public enterprises appear to be concentrated in the traditional and well established fields of public utilities as well as the so-called "commanding heights of the economy" leaving a substantial proportion of activities in other fields to private enterpreneurs. Whilst in the majority of cases the main criterion for the establishment of public enterprises is multidimensional a major rationale for their creation is to gain control of key sectors of the economy in order to play an effective role in the economic and social development of the country.

Proliferation of public enterprises has also occurred in response to an absence or weakness of entrepreneurial class and lack of adequate domestic sources of private capital for investment. 5/ As a result, African governments have now become either sole or part owners of entrepreneurial ventures such as Iron and Steel complexes, petrochemical plants, cement factories, petroleum refineries, textile mills and breweries. Others are running air and shipping lines as well as bus services. These institutions are expected, among other things, to generate profits and surpluses to be ploughed back into the economy to expand production i.e. they are expected to build up capital for re-investment and must therefore operate on strictly business lines. The entrepreneurial role of African public enterprises is therefore a very crucial are in the bid to attain accelerated, self-sustaining and mutually reinforcing economies all over the continent.

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3/ Report and Recommendations of the Committee appointed by His Excellency Hon. Daniel Arap Moi, President of the Republic of Kenya to conduct a review of Statutory Boards, Government Printer Nairobi, p.2

4/ Republic of Zambia - Third National Development Plan 1977-83. Government Printer Lusaka, p.415.

5/ Changes and Trends in Public Administration and Finance for Development - Second Survey - 1977-1979. UN Publication Sales E.82 11.H.I.ST/ESA/SER.E1/27 p.5

Whilst some African public enterprises have performed very well, it is also equally true that the history of several others is replete with failure and poor performance. Some of them have not lived up to the lofty goals which inspired their creation; others have only been kept going by the infusion of massive government subsidies, the writing off of substantial bad debts and preferential tax treatment. In many cases the rate of return of some public enterprises has been much lower than the cost of financing them on the capital market. On the whole they have not been able to deal effectively with unemployment problems and income disparities.

The performance profile of public enterprises has been relatively poor when compared with the private sector. For example the findings of a national survey carried out in 1975 by the Centre for Management Development in Nigeria revealed that the management performance of public enterprises was 12.5% lower than that of private enterprises. Public enterprises received a performance rating of 23% below that of the private sector in financial management and control. In other specific functions like personnel, marketing, production, materials management, organization and supervision, public enterprises received performance ratings of 13% to 20% below that of the private sector. This picture is not only true of Nigeria; it is also true of many African countries. 6/

Commissions of enquiry appointed in some African countries to probe the affairs of parastatals have revealed instances of mismanagement, gross irresponsib y and corruption on the part of public officials as well as unfair and unwarrante. interference in their affairs by politicians. Indeed as one report succintly points out:

> "while there are notable exceptions, there is clear evidence of inefficiency, financial mismanagement, waste and malpractices in many parastatals.Furthermore, because of the confusion which exists, it is becoming increasingly difficult to say where responsibility for inefficiency or waste lies and there is a growing tendency to attempt to shift blame to others when things go wrong. A confused situation of this sort can be exploited in many ways e.g. to resist public accountability and to engage in corruption and nepotism. 7/

This situation is not unique to the country to which the report refers. It abounds all over the African continent.

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6/ S.G. Odia - Personnel Management Problems of African Public Enterprises - paper presented at ECA Regional Seminar on Technical and Managerial Problems of African Public Enterprises, Yaounde, 7-14 August 1978.

7/ Report and Recommendations of the Committee appointed by His Excellency the President of the Republic of Kenya to conduct and review statutory Boards, Government Printer, Nairobi.

3. Constraints inhibiting effective performance

The constraints underlying the failures and difficulties of African public enterprises are many, varied and complex and can hardly be dealt with in their entirety in a paper of this nature. Furthermore even though many of the problems are basically the same, there are variations from country to country as well as between different sectoral public enterprises. A few critical constraints are outlined below and they are illustrative rather than exhaustive. Broadly speaking, these constraints are of a dual nature i.e. those that relate to the environment in which the enterprise operate and are by and large beyond its control; secondly there are those constraints inherent within the organization itself ie. internal constraints.

(a) External Constraints

(i) The current world situation coupled with the inexorable pace of modern technology as well as the increasing complexity of global economic and monetary systems provide a dynamic and extremely volatile background in which public enterprises operate. The current world recession, the fall in commodity prices as well as the protectionist tarrifs and other measures adopted by developed countries inevitably affect produce marketing boards and mining companies which are no longer able to operate economically and are compelled to reduce their work force. The heavy debt burden which many African countries have had to bear compounded with other monetary problems has resulted in an acute shortage of foreign exchange so that many public enterprises are unable to import vital equipment and spare parts from abroad. In consequence some enterprises have been compelled, through contractual arrangements to procure inappropriate technologies, absolete plant designs and equipment from foreigners who either wanted to exploit or were unfamiliar with local conditions and circumstances; the results have, to say the least been catastrophic. These and other factors underlie the urgency for Africa to minimize its dependence on external sources and foreign agents, for the evolution of a strategy based on the principle of self-reliance and the use of indigenous raw materials and other factor inputs to produce goods and services needed for local consumption.

(ii) For either political or social reasons there has been an implanned and unco-ordinated proliferation of public enterprises in African countries. The goals and functions of some of them are not clearly defined and even conflict in certain cases. This has resulted in jurisdictional conflicts, duplication of efforts, and disipation of scarce resources. This situation has in addition created formidable problems of planning and control. In particular there has been insufficient clarity regarding the distinction between social welfare and economic goals of certain enterprises.

Many public enterprises have a weak financial base; others have been saddled with responsibilities far in excess of available resources. In fact undercapitalization has been a major constraint of several African public enterprises. Accumulated loses and the reluctance or inability of share-holders including government to increase share capital have created a most unsatisfactory financial position.

The financial guidelines of some enterprises are in some cases not well spelt out; there should be a clear indication as to when the enterprise should cover its costs and when it should begin to make profits,, including rates of return. The procedure for obtaining government grants is often quite protracted while borrowing powers may be limited and circumscribed. Most credit institutions insist on government guarantees for loans. Since most governments generally provide an upper limit to their guarantee, this naturally restricts the number of public enterprises which can obtain such loans. Thus a carefully developed programme of a financially viable enterprise may be starved of funds merely because it joined the queue at the wrong time. Indeed even the right to dialogue with lending institutions must on ocassion be foregone because another enterprise or agency had previously opened negotiations with the lending institution, 8/

Closely allied to the problem of capital is the issue of pricing. Some African governments quite often arbitrarily and unilaterally fix or alter prices of goods and services for social or political reasons. As a result, several enterprises are compelled to charge uneconomic prices for goods and services which bear very little relationship to increases in the cost of production. The pricing mechanism in Africa has been used as a political weapon and is generally introduced at the most expedient period which may not necessarily correspond with the most economically judicious period.

(iii) Another type of major constraint confronting African public enterprises relates to the issue of authority to operate and this involves the level of political control as well as the degree of autonomy they should be accorded. The issue of autonomy vis-a-vis control is a very thorny one and many African governments have so far not been able to strike a balance between the two. Indeed as a UN Expert Group meeting pointed out recently:

> " .....although it is the legitimate function of governments to provide over-all policy direction to and co-ordinate the activities of public enterprises, in general the control exercised by governments is excessive, extensive and rigid. This control often extends, inter alia to the appointment of top managers, pricing policies, project evaluation, levels of investment and sources of financing ..... wage policies, industrial relations including every day (current) production management and expenditure ..... it is not uncommon for political considerations to out weigh objective considerations ..... Complex and time-consuming processes adopted for project evaluation and for financing have eventually resulted in cost over-runs and delays in implementation ....."9/.

If parastatals are to discharge their functions effectively they have to be fairly autonomous and should be given enough latitude to take decisions within the overall policy laid down by government and the requirements of the national development plan.

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8/ Marshall Hall - Some Management Problems in Public Enterprises Paper prepared for CAFRAD Seminar Organized with the Government of Kenya November/December 1976.

9/ Report of the Sixth Meeting of Experts on the UN Programme in Public Administration and Finance, Geneva, 10-19 March 1982, Doc. E/1982/52/Add.1 page 23.

They are seldom allowed to do so. To aggravate matters many parastatals are saddled with Boards of Directors often appointed for political reasons instead of competence, business acumen or other relevant experience which tend to become a liability to the enterprise. Usually there is friction between the board and the top management as well as between the latter and the supervising ministries including undue interference in the day to day affairs of the enterprise. Such interference often has its roots in the lack of proper understanding as to the nature or relationship between the enterprise and government and has crippling effects on productivity.

(b) Internal Constraints

(i) Inefficient management

African public enterprises are plagued with multifarious managerial problems ranging from organizational and operational issues, low capacity utilization, poor project appraisal, lack of skilled manpower as well as faulty procurement and supplies management systems. Because many public enterprises grew out of government departments, there has been a tendency to model them on government departments and to saddle them with civil service rules and procedures which are generally unsuitable for business ventures. Work procedures are often cumbersome, chains of command obscure and work distribution uneven. Such a situation naturally emasculates initiative, dampens enthusiasim and affects productivity. This is particularly the case with rules for financial control which should be more in accord with operational practices related to business circumstances.

It is not unusual to find in the public enterprises of many African countries, complete lack of provision for planning, research and development. Comprehensive corporate planning is lacking. Resource allocation is often based on generalized estimates rather than detailed costing; needless to say that such an unrealistic approach can result in unforseen shortages of critical inputs caused by faulty resource budgeting practices. Poor planning has also resulted in low capacity utilization of plant or even in capacities which are in excess of foreseable needs. Indeed many African public enterprises embark on projects with inadequate or hardly any feasibility studies; often there is a complete absence of market research for the product or service of a new venture. Research is equally vital in identifying production constraints and for planning new products, services and related investments.

(ii) Human Resource Development

Many African public enterprises suffer from an acute shortage of skilled, trained and qualified manpower. This deficiency is both quantitative and qualitative and is particularly critical at the top and middle levels. Naturally this affects effective performance and productivity. Indeed low productivity is a common characteristic of many African public enterprises. Productivity depends on the optimum combination and development of human, capital and natural resources. Human resources are crucial as they form the fulcrum on which everything else devolves; they are the key for the unlocking and mobilizing the other resources and must therefore be fully and effectively developed and utilized if productivity goals are to be realized. 10/

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10/ Promoting Productivity through Motivation of Staff Paper presented by Professor Robert Abramson to the Seminar for Management Personnel in Parastatal Organizations, Mombassa - Kenya 28 Nov.-11 Dec. 1976 organized by CAFRAD in collaboration with the Government of Kenya, p.3

Staff development policies in African public enterprises are either inadequate, non-existent or dealt with in an ad hoc manner. This is a very serious constraint. Comprehensive policies should be introduced as a matter of urgency and should be geared towards the full development and growth of human resources, to enable the staff to utilize their capacity fully and apply their knowledge and experience to enhance productivity. Personnel administration is a key factor in this regard and should be oriented to motivate staff. This can be achieved by fair recruitment policies, promotions and realistic job descriptions for each post. These policies should incorporate a clearly defined programme, allowing for performance improvement through job-related training; the latter should be matched by satisfactory and relevant placement to ensure optimum performance. In a nut-shell, African public enterprises need to embark on a programmed investment in manpower development.

(iii) Problem Solving Capabilities

Many African public enterprises lack the internal capability of identifying and analysing their own problems; decision-making skills are inadequate and consequently they rely to a great extent on external consultants to diagnose managerial problems and devise appropriate remedial measures instead of developing self-reliance and strengthening their own internal problem-solving capability. Apart from the high cost involved in paying for external consultancy services, especially those from abroad quite often the solutions proposed have proved impracticable or irrelevant. It is felt that self-reliance should be encouraged by improving in-house capabilities of internal consultancy systems. This can be reinforced by the installation of adequate management accounting and operational control systems as well as mechanisms for measuring costs against performance and productivity including performance appraisal and evaluation systems.

4. Conclusion

Africa has the unenviable reputation of being the least developed of all the developing regions of the world. It has the lowest income per head of population, the lowest literacy rates as well as the largest number of land locked and island countries. Thirteen African countries have per capita incomes of less than $200 per annum; twenty three between $500 and $2000. Between 1960 and 1980 the rate of economic growth was only an average of 4.8%. Many African countries are today confronted by acute economic problems and find it difficult to organize their planning requirements on a rational basis. Many of them are too small to sustain viable economic activities and without economic and technical co-operation very little can be achieved single-hardedly by the majority of African States. The region therefore needs a strategy that will reflect its own social and economic realities and which would facilitate accelerated self-sustaining growth and development.

Indigenous entrepreneurship, both public and private are critical in the attainment of economic self-reliance and national prosperity; indeed both should enjoy a symbiotic relationship. In view of the constraints confronting private indigenous entrepreneurship including shortage of capital, shortage of skilled manpower and lack of modern business acumen, it is obvious that public indigenous entrepreneurship will have to play the

predominant role in the development effort. This paper attempts to high light some of the constraints to the effective development of that entrepreneurship. As pointed out earlier, the constraints outlined in this paper are far from exhaustive but it is hoped that they will form a basis for discussion by participants. The paper does not attempt to propose remedial measures except in a few instances, as these are adequately dealt with in other papers presented to the conference.

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## OPPORTUNITIES AND CHALLENGES OF THE LAGOS PLAN OF ACTION
## THE ROLE OF PUBLIC ENTERPRISES

BY

ECA SECRETARIAT

# OPPORTUNITIES AND CHALLENGES OF THE LAGOS PLAN OF ACTION: THE ROLE OF PUBLIC ENTERPRISES

## I. Introduction

The Lagos Plan of Action arose out of general awareness that the African region has become poorer after two decades of independence. After experiences of recurrent droughts and famine, internecine civil wars between diverse ethnic groupings, foreign exploitation of natural resources, drain of scarce foreign exchange, migration of talents, widespread unemployment, and rising inflation the bells of alarm were rung from various quarters - African and non-African. The ship of State, having started its maiden voyage on the rough sea of development some twenty years before, lost its course and was so clearly 'heading for the rocks'. What must be done to set it on the right course? that was the difficult question confronting those concerned about Africa's future and to which many writers on African development have addressed themselves.

With the future looking so bleak it would have been a grave and unforgivable folly to delay action, and the action needed a plan in order to be orderly and effective. A special summit was therefore held in Lagos (Nigeria) in April 1980 in order to chart the economic course of the African Continent and what the African leaders assembled in that summit decided are embodied in the Lagos Plan of Action. It is of course one thing to draw up a plan: it is quite another to execute it. Trained and experienced public servants know that a whole gamut of challenges are to be found in the latter. These challenges must be thoroughly understood before they can be met, not met before they can be understood. But the Plan happens to provide opportunities also, and these must be perceived and persued without fail. There are times, albeit few, when an opportunity so clearly presents itself and is just waiting to be taken, but in most cases it

is difficult to draw the line between 'opportunity' and 'challenge': the one disguises the other.

In any case, a heavy burden falls on the Public Sector in executing the Lagos Plan of Action. In some countries it has to assume the major responsibilities of a weak and ineffective private sector in addition to its own burdonsome task of making the overall policy bearing on the economy; in others, ideology has simply thrust these responsibilities (and more) upon its shoulders. Whenever the Public Sector is mentioned one immediately thinks about public enterprises as if the two terms were synonymous when, in fact, they are not. This is understandable, however, because most African Governments have given a lion's share to public enterprises in allocating responsibility for the realization of accelerated development.

The thrust of this paper will therefore be on the performance of African public enterprises and the role of the latter in translating the hopes and aspirations of the Lagos Plan of Action into a viable reality. The emphasis will be, however, on what they ought to do in order to fulfill that role, rather than how to do it. We shall also look briefly at the future prospects of these enterprises in so far as their place in the Lagos Plan of Action is concerned.

## II. OPPORTUNITIES, CHALLENGES AND RESPONSES

As previously said the Lagos Plan of Action presents both opportunities and challenges in the various fields of development such as Agriculture, Industry, Transport and Communications, Science and Technology, Trade and Finance, and Human Resources. It is now two years since the Plan was adopted in Lagos and we are already approaching some of the deadlines set by it. It is therefore time to pause and look back at the past two years with a view to seeing the achievements so far. A re-examination of performance is always necessary and useful as a guide to future action. The performance of public enterprises in the last two years may be considered to

be their response to the opportunities and challenges presented by the Lagos Plan of Action.

(a) Agriculture

The Plan gives the highest priority to what the African region has been and is in greatest need: the production of food. It seems preposterous to talk about chronic shortages of food in Africa when the land is so vast, the soil so rich, the water so abundant and the people so available. It is of course those who are supposed to set the wheel of development in motion who should bear the blame for the apathy and resignation which befall the rural majority the primary agents of food production. No other objective could take precedence over the objective of self-sufficiency in food production. This is indeed where the Lagos Plan of Action stands head and shoulders above the World Bank Report[1/] which advocated an export-oriented agriculture.

The Lagos Plan of Action clearly spells out the targets to be achieved within the Plan period. Within a period of only five years (1980-1985) African countries are requied 'to bring about immediate improvement in the food situation and to lay the foundations for the achievement of self-sufficiency in cereals and in livestock and fish products'[2/]. Furthermore, the Plan requires the member-States to make 'as a first step'[3/] strategic food resources of the order of 10% of the total food production. This obviously means that they should aim, at the outset, at a surplus of 10% because food reserves can be made only when there is suplus. By 1985, only a mere three years

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1/ See, "Accelerated Development in sub-Saharan Africa: An Agenda for Action", World Bank, 1981

2/ The Lagos Plan of Action, P. 12, para 20.

3/ Ibid.

from hence, the Plan requires an annual increase of fish production by one million tons. Because of spreading desertification it calls for an expansion of areas under forestry regeneration programmes by 10% annually upto 1985, and the expansion of forest reserves by 10% from 1980 to 1985.

The policies to be followed towards the realization of these targets have similarly been laid out. The primary actors on the stage of development are the member-States and they have accepted this role unequivocally in the Lagos Plan of Action, but there are other actors to whose lot an auxillary role falls. These are the ECA, OAU, FAO, IFAD, WFP, ADB and PADEA. Therefore the policies are to be adapted by the member-States to their own domestic conditions and are to be executed by them; the organizations mentioned are to help in both instances (that is policy and execution). As far as agriculture is concerned these policies are in the areas of training, extension services, dissemination of information, marketing investment, research, credit facilities, commodity pricing systems, processing and storage, transport, and land tenure. All these areas are very closely interrelated and should be considered the components of a holistic agricultural policy. It is common place that African agriculture has failed to rise from its present level of subsistence (and a very poor subsistence at that) to a dynamic sector with a multiplication of producing power because it is not a profitable enterprise which is sustained by innovations coming out of research, credit facilities, investments and even proper policy of land use. To invigorate it, governments must not only adopt the proper policies but they must also relentessly persue these policies to their successful conclusion.

The response of African public enterprises cannot be said to have been warm so far. There is dearth of reliable data on their performance because of the difficulty of communication and lack of feedback. However, they themselves are subjected to the policies

of their respective governments which may not be systematic or even rational. The ultimate test of their performance must nevertheless be determined by their proximity to the targets of the Lagos Plan of Action or even their own national development plans. The papers which will relate to us various country experiences will probably shed more definite light on the progress made in the last two years. So far, there is no record of any discernable achievement since the African countries committed themselves in 1980 to the Plan.

(b) Industry

The complementarity of agriculture and industry has been given due recognition by the Plan. Industry can ensure a multiplication of agricultural production by producing the necessary implements. Agriculture, on its part, produces some inputs to industry, especially food processing and textile industries. Therefore, agriculture and industry must not be seen as two competing and mutually hostile areas. The old debate whether to develop by industrialization or by farming on a large scale is no longer relevant; there can be no development by one means to the exclusion of the other.

The Plan sets some targets in Industry and these targets are tough, to say the least. In the first place, the Plan reaffirms the decisions passed at the Second General Conference of UNIDO at Lima and the Third General Conference of UNIDO at New Delhi on the African Industrial Development Decade and endorses the New Delhi Declaration and Plan of Action submitted by the Group of 77. In order to meet the targets set by all these, Africa will have to produce an industrial output of 1% of world industrial production by 1985 and reach the 2% mark by the year 2,000. Expressed in percentage terms these targets seem to be within easy reach, but when expressed in terms of tons of finished goods they are indeed formidable and will daunt everyone but the most determined.

The current decade (1980 to 1990) has been proclaimed the "Industrial Development Decade in Africa" in order that Africa will achieve a greater share of world industrial output. This challenge is obviously directed to the industrial public enterprises. It is they, more than any other, who should familiarize themselves not only with the Lagos Plan of Action but also with the contents and requirements of the Industrial Development Decade Programme which emphasises the development of certain core industries (such as metallurgical, chemical, engineering, and building materials) which provide effective linkages to other sectors of the economy like agriculture.

To implement the programme for the Industrial Development Decade for Africa would require at least US$140 billion. From the magnitude of this anticipated expenditure we can deduce the magnitude of the challenge to be met and the size of the effort to be made. The situation is complicated further by the fact that the core - industries are characterized by complex and sophisticated technologies and are subject to economies of scale. Unfortunately, most African countries are faced with problems of mobilizing and redeploying financial resources of the establishment of these industries and are hard pressed for foreign exchange: the private sector, being weak, cannot even dream of establishing them. This leaves the field to foreign private entrepreneurs, but they themselves would not come in without a favourable investment policy which will not only attract them but will also guarantee repatriation of capital and profits. A wise foreign investment policy should stipulate the transfer of technology to nationals. In fact some African countries, such as Zambia, have provided the material incentives for a forward-looking policy of training nationals, by deducting the cost of such training from the taxes due to the Government. But even when a country adopts a very liberal investment policy foreign investors are discouraged by apparent instability and the possibility of a socialist government coming to power.

It would be contrary to the spirit of the Lagos Plan of Action and the clamour for self-reliance to say that the Continent should industrialize by persuing a liberal investment policy which would attract foreign industrial corporations, multinationals and others. True, the required financial resources alone are formidable and cannot be wholly provided by the member-States alone without receiving generous support from international organizations and bilateral sources. These difficulties are very discouraging indeed and do not help African countries to be optimistic about meeting the challenges.

The response of African industrial enterprises has not been clear. But we are not aware of notable achievements since the Lagos Plan of Action was adopted two years ago. We will leave the papers on country experiences to tell us of any success stories, if there are any. Even the member-States have not been supplying any feed-back information to the ECA and the OAU on the difficulties encountered and the success achieved in the implementation of the Plan. By now a great deal should have been achieved. At least the foundations of a sound and coherent industrial policy which harmonizes with agricultural policy should have been laid down; again there is no evidence that even the beginnings of such a policy obtain in the member-States.

(c) Natural Resources and Science and Technology

There are obvious advantages in taking science and technology together with natural resources since the two are so closely interrelated. Africa is endowed with abundant natural resources but they remain largely underdeveloped or even untapped. The Lagos Plan of Action identifies the problems confronting African States in the field of natural resources as: "lack of information on natural resource endowment of large and unexplored areas and the activities of transnational corporations dealing with natural resource assessments;" lack of adequate capacity (capital, skills and technology) for the development of these resources; a considerable dependence on foreign transnational corporations for the development of a narrow range of

African natural resources selected by these corporations to supply new material needs of the developed countries; the inadequate share in the value added generated by the exploitation of natural resources of member-States due to imperfect pricing and marketing practices, non-integration of the raw materials exporting industries into the national economics of the member-States thus impeding backward and forward linkages; extremely low level of development and utilization of those natural resources of no interest to foreign transnational corporations; and disappointingly low general contribution of natural resources endowment to socio-economic development."1/

The excercise of sovereignty by the African States over their natural resources is limited by the above factors and the Lagos Plan of Action addresses itself to these problems. Therefore, it recommends that the strategy during the 1980s aims at: (1) assessing natural resources endowments and using the information in planning, and (2) integrating the development of natural resources in socio-economic development programmes, both national and African, in order to encourage the complementarity of different natural resources, (3) undertaking comprehensive manpower, technology and capital needs surveys, (4) strengthening existing national and African multinational institutions dealing with natural resource development, (5) harmonizing natural resource development policies, and (6) working closely with the international community as well as non-African agencies involved in natural resource development in the region. The Plan also sets some objectives in the development of particular resources such as mineral and water resources. The latter resource is indeed vital to large parts of the Continent which are so dry that even drinking water is in short supply. It takes precedence therefore (more in these areas than in others) over all the other natural resources.

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4/ Ibid, P. 29, para. 76

The place of science and technology is not held in dispute. The argument may be advanced that the present level of development, which is admittedly very low, does not justify any preoccupation with science and technology. A country which cannot even execute a simple rural development project, one would say, will hardly benefit from the sophistication inherent in the application of science and technology. But African countries find themselves in a fast-moving world and have the dream to catch up with others. In President Nyerere's terms, therefore, they have to "run while others walk": they could do so only with the aid of science and technology.

Not surprisingly, the longest chapter in the Lagos Plan of Action is the one on science and technology. This is not to say, however, that science and technology are more important than agriculture or human resource development; but the prominence given to them in the Plan is merely to undersore the importance of science and technology as accelerators of agricultural and industrial development: they are not an end in themselves, but they are sine qua none to speedy development. Furthermore, the very mention of science and technology may give the impression that the member-States are being asked to go for high technology and advanced scientific methods: perhaps, the manufacture of cars, planes and computers - and even space technology - readily come to mind. This would be presposterous in view of the current stage of African development - or underdevelopment. The science and technology programme recommended in the Plan is a very simple one - and something within the reach of African countries. The Plan actually calls for, inter alia, the encouragement of indigenous technologies, exchange of knowledge and experience among African scientists and technologists, technology transfer among member-States and technical cooperation among them.

A great many African countries do not have any institutions for the promotion of science and technology: others, though few in number, have ministries, agencies and centres for such a purpose. Since all independent African countries have committed themselves to the Lagos

Plan of Action and have therefore accepted its science and technology programme they will be well-advised to start with institution building to which the Plan devotes a great deal.

The economic debate in Europe and North America centers today on energy. After the petrol crises which followed the Arab/Israeli war of 1973 energy problems became more and more urgent. The developed world has been engaged in a frantic search for alternative sources of energy. But Africa needs energy too, not for cold winters and numerous and heavy industries, but for its limited number of industries, cities and villages. Energy is not only petrol; it is many and varied and Africa is generously endowed with present and potential sources of energy. Therefore, a good deal of research, if carried out, will greatly benefit Africa. However, the research which is now going on in the developed world is focused on finding a cheaper replacement for petrol so that factories will operate, cars will move, planes will fly, and homes will be warm in the winter.

Unfortunately, many African governments have not so far understood the value of research; they therefore think that any amount of money spent on research is money wasted. The developed countries are carrying out the type of research which will benefit them; it would be naive to expect them to be so ultruistic as to engage in research which will only benefit their future competetors. That is probably why research in solar energy, for example, did not go far enough: it is still in the demonstrative stage. The sun is burnning hot over most of the Third World, but one fails to understand why the oil-rich countries, notably those of Arabia, which are rich also with solar energy, do not put substantial amounts of money into the research in solar energy: perhaps somebody should direct this to their attention or, better still, the matter should be one for Arab/African cooperation.

To what extent, one may ask, have African public enterprises responded to these opportunities ? First of all, in most countries,

the exploration and development of natural resources is not entrusted to public enterprises. Generally, there are ministries of mining, water supply and energy and almost no institutions at all for science and technology. This is not to deny the existence of mining and oil companies, electricity, hydraulic and other energy-tapping agencies, but these are few in number and control is firmly in the hands of the central government. Public enterprises, such as exist in these areas, have not made any successes which are worth noting. Oil has been found, as we read in the news, in some African countries, like Ivory Coast, the Sudan, Malawi, and Tanzania, but by foreign companies. It is believed that oil is available in commercial quantities in a number of other African countries and there is strong suspicion that the reason for not drilling it out to the surface is political. If African countries had the technical capacity to do this for themselves their economic situation would have been very different from what it is today. Unfortunately, oil prospecting and drilling need a very sophisticated technology which is even beyond the reach of intermediate powers, let alone Africa. For this reason the publicly-owned oil companies in Nigeria and Libya, for instance, do not do any prospecting or drilling themselves. If public enterprises do not have the knowledge and the technical capacity to carry out the functions and responsibilities entrusted to them their existence loses sense and meaning.

(d) Transport and Communication

The role and importance of the public sector in the transport and communications sector in Africa is well established in that all the various transport modes and communications media have, are, and will continue to be developed by the public sector or by agencies under direct public control.

As far as the Lagos Plan of Action is concerned, it needs to be pointed out that a comprehensive programme for the development of the

transport and communications sectors had already been established under the auspices of the United Nation's Transport and Communications Decade in Africa (UNTACDA) and the LPA merely subsumed this programme in its entirety. Thus in the transport and communications sectors, the LPA and UNTACDA are one and the same.

Already the development of railways, maritime and ports, inland water transport, air transport, and the trans-African road network are firmly under the responsibility of the public sector in Africa and the strategy advanced by the LPA does not introduce any implications for these sectors. Similarly, the PANAFTEL programme in its entirety is under the various public authorities and ministries of telecommunications in the various African countries.

Public sector responsibility for transport and communications development has invariably gone hand in hand with public enterprises and companies for the construction and maintenance of infrastructures with the result that all African ports, airports, railways, roads, telecommunications network, etc.., have either been constructed by public sector firms or under public sector control, by private firms.

It should be pointed out that once transport and communications infrastructures and facilities have been constructed in place, they last a long time and require adequate periodic and occasional emergency maintenance. This is true for ports, airports, railways, highways, telecommunications networks etc.., and the perpetual existence of public enterprises to operate these facilities does not necessarily imply that public construction companies should be maintained for each of these modes, since in most cases construction of new facilities occurs between long intervals. The existence of public construction companies in many African countries with expensive capital and specialized equipment which is seldom used, partly because heavy/specialized construction is not a continuous process and partly because such companies are not suited for contract works, is uneconomical. What is important and indispensable is well-equipped maintenance crews for the upkeep of the system.

While acknowledging the role of the public sector in the transport and communications sectors, national self-sufficiency in public construction companies for each country is not necessarily viable for each country. A rational solution to this problem lies in multinational or subregional approaches which could encourage the setting up of a few number of multinational or subregional construction companies which can carry out work on subregional basis and thus be assured of sufficient work and efficient use of heavy capital-intensive equipment and it does not particularly matter whether such companies are public or private.

Both the LPA and the UNTACDA call for close co-operation both at the regional/subregional levels in the implementation of transport and communications sector programmes. Policies for such co-operation and programmes for joint implementation have already been established in the transport and communications subsectors. These include policies and programmes on regional and subregional activities in maritime, air, railway, highways, training institutions and programmes, some of which are already being implemented under the first phase of the Decade.

The major constraints encountered so far and likely to be encountered in the future are:

(i) lack of the large financial and technical resources to carry out some of these multinational projects;

(ii) lack of an established subregional or intergovernmental body to co-ordinate some of the activities on behalf of the various countries involved; and

(iii) the legal implications and thus the unwillingness of any one country to promote some multinational, subregional and regional programmes and activities of co-operation.

In conclusion, all public sectors in Africa should play an active and important role in the implementation of the LPA in the transport and communications sectors, not so much because the LPA requires them, but because transport and communications have traditionally been public sector activities. In the fields of transport and communications, but more so in the former, the public sector has made noticeable improvements especially in so far as the construction of roads is concerned.

(e) Trade and Finance

Public enterprises in the sector of trade are usually engaged in domestic trade. Those for foreign trade exist but they are admittedly few because international trade is balanced in favour of imports: in other words there is a trade deficit because countries in Africa, indeed in the Third World as a whole, import much more than they export. This blatant imbalance can be remedied in large measure by increasing exports and reducing imports through import-substitution and by changing the pattern of consumption in favour of domestic goods.

Many African countries have established public enterprises which will produce for the domestic market goods which were previously imported. These enterprises operate what have been termed as "infant industries" which were said to require protection until they were strong enough to stand on their own feet and compete with the more established industries of the developed countries. The arguments for and against import-substitution-raging in the sixties and seventies - are very well-known, but African countries will be well advised to listen to foreign criticism if only for th purpose of self improvement. They should therefore, pause, for self-re-examination and self-reassessment; the vital question they should ponder about is whether African industries have been "spoilt" by continued dependence on protection or whether they have languished

for lack of it. However varied and commonplace the reasons may be the fact remains, to this date, that imports have devoured the foreign currency resources of most African countries.

If African countries must import why can't they import from each other ? In other words, why shouldn't there be an inter-African trade which should be given a chance to take root and prosper ? In this sphere also the problems are frustrating and at the height of these problems are transport and communication difficulties which are the life-blood of any trade. We have covered these problems briefly in this Section under the relevant title but when it comes to trade, be it domestic or international, one is unavoidably impressed with the importance of transport and communication. But there are other barriers to inter-African trade: even such contiguous countries as Nigeria and the Cameroon find it much easier to trade with Britain and France respectively than with each other; there are problems of language and outlook, of politics and ethnics, and of financial and institutional arrangements. In addition, African goods are generally very highly priced and of low quality and are not therefore competitive.

The Lagos Plan of Action lays heavy emphasis on the removal of these barriers and the establishment of economic integration groupings. It sets a number of goals which have to be attained in the first half of this decade. The role of public enterprises, so far, in promoting and venturing into economic integration has not been very clearly defined or successfully played. There are economic integration groupings such as ECOWAS and UDEAC, to mention just two, and we have seen recently the establishment of the Eastern and Southern African Preferential Trade Area ; but there have been some failures too, such as the collapse of the once-promising East African Economic Community. Public enterprises generally operate as far as foreign trade is concerned in the export of, say, coffee, cocoa, bananas or whatever else a country may have as its main export; they are also concerned in imports and wholesale supply to domestic business

establishments: there are those enterprises which specialize in importing medical drugs for distribution to pharmacies as there are others which import things like building materials, petrol and its affiliates, and even cars, tractors and the like. In countries where socialism has been declared as a national ideology public enterprises spring up for every conceivable trade. However, the public enterprises in the sector of trade (and we must include those in agriculture and industry not only because they export their goods, but also because they are involved in a very vital hard-currency saving exercise) have not made a very impressive performance. This conclusion can be reached very easily when one sees chronic shortages of commodities for which they have been made responsible or the dwindling of their foreign exchange earning capacity.

Finance is of course supremely important. If late, the lack of it has been blamed for conveivable short-falls in supplies - especially, the lack of hard currency. Finance is the life-blood of development; but it is also true that development produces finance. Public sector institutions in the financial sector, especially the banks (central banks, credit banks, commercial banks, and all sorts of development banks) bear the responsibility for financing development projects, not those of government only, but also those in the private sector. In fact, it is the public sector which sets the pace and tempo of the private sector but it is the private sector which invigorates the economy. Financial institutions which have now become quite ineffective should be vivified so that they will in turn breath a new life into the multifarious projects which are dying for lack of development finance.

Development finance is not only in credits and insurance but it is also in the realm of taxation. The latter can be used either to encourage or to kill development. There is a type of greed on the part of governments desirous of filling up the public purse, which leads to heavy and burdonsome taxation and therefore stifles development. Governments should encourage national entrepreneurs through tax incentives without which they cannot forge ahead their development schemes;

these incentives are also essential for those public enterprises which show positive results in their endeavours.

## III. CONCLUSIONS

We have noted the reasons why the public sector should play such a dominant role in the economic life of African nations: one reason is purely ideological; the other is that the private sector is very weak. In countries where a free-market economy operates the public sector takes the responsibility to vivify the private sector so that it will shoulder its own share of responsibilities in the development task. In most countries in Africa (even in those without compelling ideological reasons) we find that the public sector has actually stifled the initiative of the private sector and has consequently and unnecessarily overburdened itself with responsibilities. For this reason it has been very sluggish when in fact the situation demanded a great deal of dynamism.

The Lagos Plan of Action presents difficult challenges to public enterprises in particular, but it also provides some opportunities. The first and greatest challenge of all is whether the opportunities will be perceived, correctly interpreted and vigorously persued. Although concrete information on the performance of each public center enterprise is lacking it appears to be fair to say that they seem to have fallen somewhat behind expectations. How could this conclusion be reached, one may ask, without "facts and figures" ? the fact is that the progress made, since the Plan was adopted in 1980, in the various fields of development activity is quite imperceptible - if the situation has not even deteriorated. One only needs to look at the acute shortages which have not been remedied, the drain of valuable and scarce hard currency still unabated, the old practices of maladministration not anywhere near falling into desuetude, the misguided policies still in use and the serious departures from some vital tenets of the Plan. As previously mentioned, it is for the

country papers to recount to us some success stories which occurred since the Plan was adopted two years ago.

The first priority of the Lagos Plan of Action is, understandably, self-sufficiency in food; in other words, the fight against hunger comes first. The main reason for this is that the wide-spread prevalence of hunger has caused malnutrition, disease and even starvation and, in consequence, African countries have been compelled to compromise their sovereignty in order to save lives: a man who needs others for his basic necessities cannot be free. The primary goal, therefore, is freedom from want after having wore freedom from colonial domination. Exports have not been given in the Lagos Plan of Action the prominence they found in the pages of the World Bank Report which is seen in some quarters, mainly African, as a device to deflect African countries from the course they have chosen for themselves; one does not give away, for anything, something on which one's own survival hinges and anything to be exported away must be classified as surplus. In Africa, therefore, the battle for development is a battle for survival and the public sector as a whole (and public enterprises in particular) should, with that in view, endeavour to fulfill the requirements of the Lagos Plan of Action. They should continually and on periodical basis examine themselves and assess their own performance so that they would see where they are going and will never lose sight of the main goal.